

Message Text

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PAGE 01 NEW DE 09781 111425Z
ACTION NEA-10

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FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC IMMEDIATE 4620

C O N F I D E N T I A L NEW DELHI 9781

E.O. 11652: GDS
TAGS: OVIP (CHRISTOPHER, WARREN)
SUBJECT: BRIEFING PAPERS FOR DEPUTY SECRETARY'S VISIT

REF: STATE 157966

1. IN RESPONSE TO REFTTEL, EMBASSY SUBMITS BRIEFING PAPER ON
H.M. (HERUBHAI MULJIBHAI) PATEL, FINANCE MINISTER.

2. H.M. PATEL, 72 IS A RETIRED CIVIL SERVANT TURNED POLI-
TICIAN. A GUJARATI, LIKE PRIME MINISTER DESAI, HE IS RECOG-
NIZED AS A KEEN SCHOLOR OF THE INDIAN ECONOMY WHO TURNED TO
POLITICS, AFTER RETIREMENT IN 1966, TO EXPRESS HIS DEEPLY
HELD CONVICTIONS ABOUT ECONOMIC AFFAIRS. THESE INCLUDED
CHAMPIONSHIP OF FREE ENTERPRISE AND AN ARDENT ADVOCACY OF
UNSHACKLING THE INDIAN ECONOMY FROM THE CONTROLS THAT PER-
MEATE IT. HOWEVER, TEN YEARS OF FRUSTRATING POLITICAL EX-
PERIENCE APPEAR TO HAVE TEMPERED ANY PROPENSITY FOR PRECIPITATE ACTION. HIS BACKGROUND AS A TOP-RANK CIVIL SERVANT HAS
MADE HIM KEENLY AWARE OF THE CONSTRAINTS IN TACKLING INDIA'S
ECONOMIC PROBLEMS.

3. ONE OF PATEL'S FIRST TASKS AS FINANCE MINISTER WAS TO GO
TO WASHINGTON TO ATTEND THE IMF/IBRD MEETINGS AT WHICH TIME
HE SAW SECRETARIES VANCE AND BLUMENTHAL. UPON HIS RETURN HE
MADE IT CLEAR THAT HE HAD NOT SOUGHT BILATERAL AID FROM THE
U.S. AND WENT ON TO SAY THAT AID SHOULD PREFERABLY BE ROUTED
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THROUGH MULTILATERAL AGENCIES AND THAT FOREIGN INVESTMENT
SHOULD BE SELECTIVE.

4. IN ITS DEALINGS WITH HIM, THE EMBASSY HAS FOUND PATEL TO
BE MILD-MANNERED, CAUTIOUS AND BUSINESSLIKE. IN TWO RECENT
MEETINGS WITH THE AMBASSADOR, HIS MANNER HAS BEEN MARKEDLY
FRIENDLY TOWARD THE U.S. IT WAS PATEL WHO RECOMMENDED TO THE

CABINET THAT THE GOI ACCEPT THE U.S. OFFER TO INITIATE DISCUSSIONS ON AID. IT WAS THE CABINET WHICH HAD QUESTIONS ABOUT THE NEED FOR HEARINGS BEFORE THE HOUSE APPROPRIATIONS COMMITTEE AND THEREFORE DEFERRED A DECISION.

5. THE FIRST REAL STATEMENT ON PATEL'S ECONOMIC VIEWS CAME IN THE PRESENTATION OF THE 1977-78 BUDGET ON JUNE 17. IN IT HE POINTED OUT THE MAJOR ECONOMIC PROBLEMS FACING THE COUNTRY: (A) A LOW RATE OF ECONOMIC GROWTH; (B) CLASS AND REGIONAL DISPARITIES; (C) A LARGE SCALE UNEMPLOYMENT, PARTICULARLY IN RURAL AREAS; AND (D) INFLATION. STRESS WAS LAID ON THE NEED TO PROMOTE FASTER GROWTH IN THE AGRICULTURE SECTOR AND TO ENCOURAGE SMALL SCALE AND COTTAGE INDUSTRIES TO SOLVE THE PROBLEM OF RURAL UNEMPLOYMENT. HOWEVER, DUE TO THE LACK OF TIME TO PREPARE THE BUDGET AND HEAVY COMMITMENTS OF EXPENDITURE ON ON-GOING PROJECTS, THE BUDGET PROPOSALS WERE NOT ABLE TO FULFILL ALL THE PROMISES CONTAINED IN THE JANATA'S PARTY MANIFESTO. THE DOCUMENT RECEIVED MIXED REACTIONS AND WAS CHARACTERIZED AS AT BEST MODEST, REALISTIC, PREGMATIC AND ORTHODOX. THE BALANCED BUDGET PROMISED BY THE PRIME MINISTER WAS ALMOST ACHIEVED BY REDUCING THE SMALL DEFICIT TO ONLY RS. 772 MILLION (\$82 MILLION) BY THE RATHER UNORTHODOX USE OF BORROWING RS. 7,000 MILLION OF FOREIGN EXCHANGE FOR THE RBI.

6. PATEL'S BUDGET AND STATEMENTS MADE SUBSEQUENTLY INDICATE HIS BASICALLY CAUTIOUS APPROACH TO A MYRIAD OF LARGE AND OFTEN CONFIDENTIAL

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COMPLEX PROBLEMS. WHILE STATING THAT THE GOVERNMENT WAS COMMITTED TO PROMOTING A MIXED ECONOMY IN WHICH THE PUBLIC SECTOR WOULD OCCUPY A COMMANDING POSITION, HE WENT ON TO SAY THAT THE PRIVATE SECTOR WOULD ALSO MOVE FORWARD.

7. SINCE ASSUMING HIS POST, PATEL'S POLITICAL ACTIVITIES HAVE BEEN QUITE MUTED IN COMPARISON TO MANY OF HIS COLLEAGUES. HE IS RESPECTED AT THE FINANCE MINISTRY AND IS SEEN AS AN EFFECTIVE AND KNOWLEDGEABLE, IF NOT INSPIRED, TECHNOCRAT.
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